AGT

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AGT provides advanced global telecommunications for all Albertans. Focused on this objective, the Company aggressively pursues innovations in technology as well as new services and business opportunities.

COVER
The world of fiber optics: Telecommunications at the speed of light

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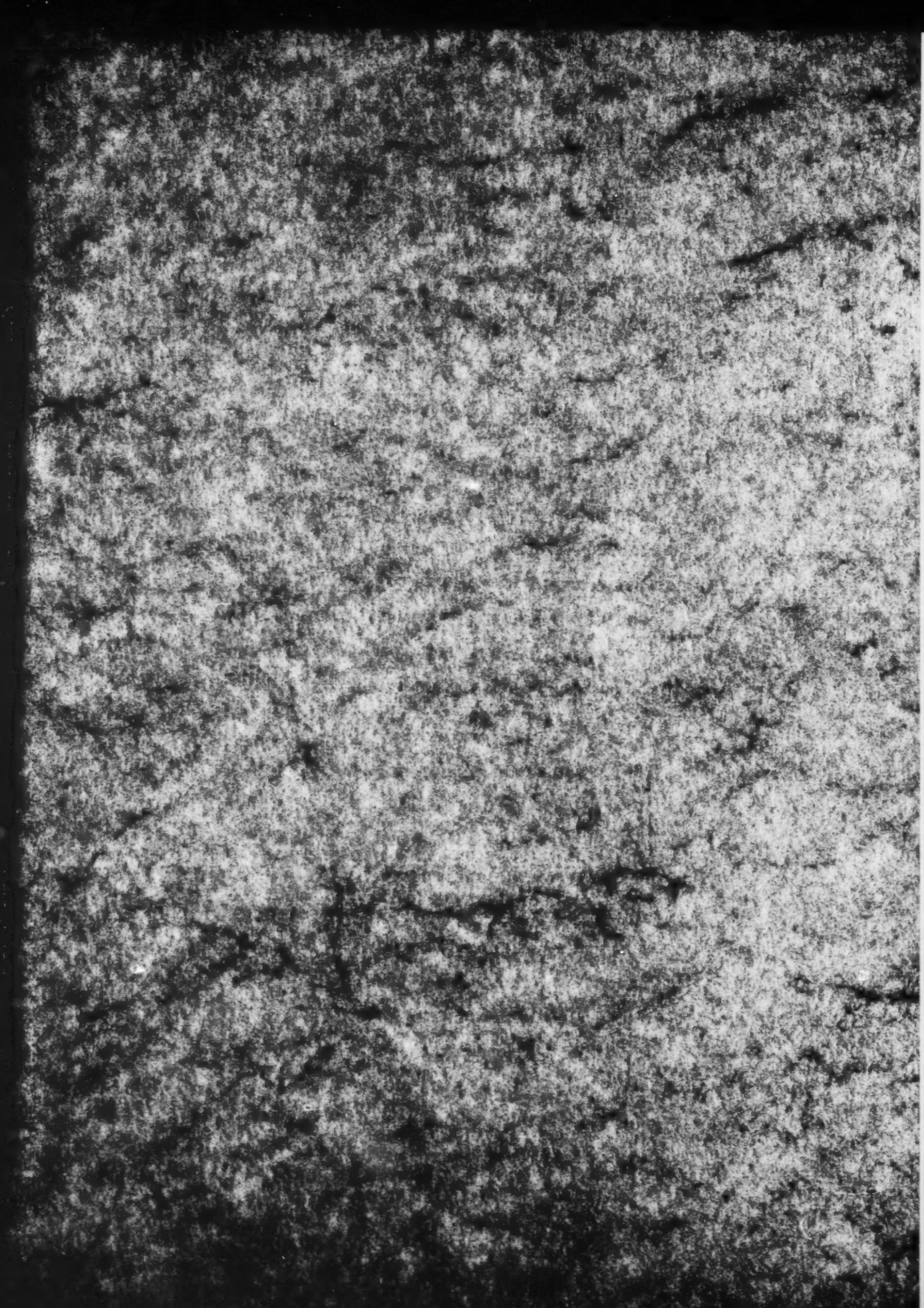


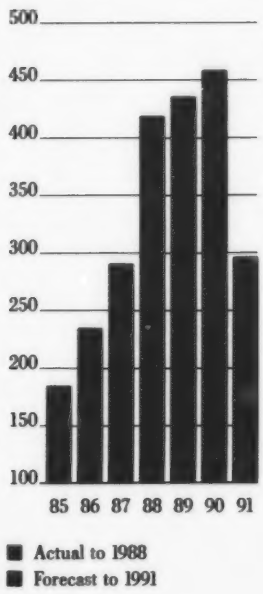
AGT is Canada's third largest telecommunications company, generating over one billion dollars in annual revenues.

Dedicated to serving Albertans for more than 80 years, AGT provides its 2.4 million customers with local and long distance voice, data and image transmission; telephone terminal equipment; business systems; directory services; and cellular communications. The Company's network extends worldwide through membership in Telecom Canada.

Subsidiary operations include Alta Telecom International Ltd. (ATI), which offers consulting services and specialized systems to clients overseas, and operates in the United States under ATInc.; Alta-Can Telecom Inc., a venture capital company, investing seed equity in emerging technology-based Alberta enterprises; and NovAtel Communications Ltd., Canada's only manufacturer of cellular telephone terminals and systems.

(millions)	*Percentage Change*	1988	1987
Financial			
Operating revenues	2.7	**$1,071.4**	$1,043.3
Operating expenses	2.5	**826.3**	806.5
Net income	83.1	**45.4**	24.8
Cash generated by operations	39.1	**281.2**	202.1
Capital expenditures	44.9	**419.0**	289.1
Plant investment – gross	7.2	**3,535.1**	3,299.2
– net	9.0	**2,113.0**	1,939.0
(thousands)			
Operational			
Network access lines	5.2	**1,021.1**	970.5
(millions)			
Long distance messages	9.5	**289.8**	264.6
Messages per line	4.0	**284**	273

Capital Expenditures
($ millions)



- *Increased consolidated net income by 83 percent to $45.4 million*
- *Provided the telecommunications network and services for the XV Olympic Winter Games*
- *Lowered long distance rates an average of 17 percent*
- *Refunded $67 million in surplus revenues to customers*
- *Introduced long distance discount plans*
- *Strengthened investments in telecommunications research and development*
- *Completed second year of five-year network modernization program:*
  - *upgraded 68 switches to digital technology*
  - *provided 27,735 party line customers with individual line service*
- *Completed current Extended Flat Rate Calling program with an additional 113 routes*
- *Expanded cellular service to Lethbridge and Medicine Hat, maintaining the most comprehensive coverage in Alberta*

When I was appointed chairman of the AGT Commission five years ago, we identified a major challenge facing the Company: transform AGT from a basic telephone monopoly to a competitive telecommunications enterprise. The Commission, which functions in the same way as a board of directors, was accurate and timely in its view. It is appropriate then to reflect on the past half decade, as we continue to shape and actively share in one of the most dramatic periods in AGT's growth.

The gradual opening of competitive telecommunications markets in Canada has had—and will continue to have—a large impact on our Company and industry. We have seen the industry meet new demands brought on by rapidly advancing technology and increasingly sophisticated customers, without sacrificing the high standards in service Canada has come to know and for which it is recognized.

The gradual opening of competitive markets will increasingly impact AGT's operations.

As the prospect of competition increases, governments, industry officials and regulatory agencies have responded by working together to establish new guidelines and policies for Canada. It is a complicated task at best, and certainly not subject to easy resolution. We are nonetheless hopeful that a national telecommunications policy—carefully crafted to consider and respect the various regions of Canada—will soon be a reality.

There have also been substantive efforts to streamline the country's basic structure of regulation. Currently, some

companies are regulated provincially, while others fall under federal jurisdiction. It is perhaps most appropriate to establish a level of consistency across the country. The AGT/CNCP case now before the Supreme Court – because it involves a jurisdictional precedent – could greatly influence how the entire industry will be regulated.

Recognizing this shifting competitive and regulatory environment, we began the critical but necessary internal process of preparing and adapting the Company to be more responsive to the customer – better positioned to compete. This included, in 1986, one of the most extensive corporate reorganizations in AGT's history.

At the same time, we set out to prepare ourselves technically, through a half-billion-dollar network modernization program. For our customers, the program will see individual line service extended throughout rural Alberta and an extensive upgrading of services in urban areas, making sophisticated telecommunications available virtually everywhere in the province.

It has been gratifying to see AGT's subsidiary operations fulfill their intended roles in the province's economic diversification to provide technical jobs for young Albertans.

NovAtel continues its rapid growth as the only Canadian manufacturer of cellular telephones. The company is one of the top four cellular telephone marketers in the United States, Great Britain and Canada, and is a major player in the cellular systems business. Alta-Can Telecom supplies both venture capital and management support to a number of start-up telecommunications companies in Alberta, and is seeking to expand its activities through participation with private sector partners.

Subsidiary operations are fulfilling their roles in diversifying Alberta's economy and providing jobs for young people.

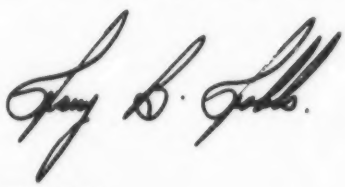
Alta Telecom International has established an excellent reputation through its performance on contracts in Thailand, Brunei, Puerto Rico, the Bahamas, New Zealand and the United States. Currently, a fibre optic network is being developed in Philadelphia.

During my term, speculation about privatization of the Company has often surfaced. My view remains unchanged: it is a natural, evolutionary step and the best means of developing the competitive agility AGT needs to maintain its high technical standards and deliver the service Albertans have come to expect. As a private sector firm, the Company would continue to be regulated, ensuring the kind of growth that first and foremost benefits our customers.

There is a resurgence in the strong sense of commitment and support with our employees.

These past five years have seen a resurgence in the strong sense of commitment and support with our employees. Nowhere was this more evident than during our participation in the 1988 Olympic Winter Games. Providing the Games with telecommunications services won high praise from sponsors, Olympic organizers, broadcasting officials and visitors alike. The events leading up to and including February of 1988 are an enduring accomplishment that will long speak well of AGT.

I am pleased to have played a part in this new era of telecommunications in Alberta, and have every confidence in the direction we are now taking. The Commission and our team of senior managers share a strong corporate vision which, together with the energy and enthusiasm of all employees, will ensure AGT's leadership and success.



H.B. Hobbs
Chairman
March 20, 1989

Nineteen eighty-eight was one of the most exciting and demanding years in AGT's 82-year history. The Company achieved excellent profitability, made strong progress modernizing the network, continued with corporate restructuring and successfully participated in the XV Olympic Winter Games.

Demand for telecommunications services reflected Alberta's strengthening economy, led by growth in the manufacturing, petrochemical and forest product sectors. Network access lines exceeded the one million mark for the first time, increasing by 50,580 lines to 1.02 million; long distance messages grew by 9.5% to almost 290 million.

While total long distance revenues increased only 4.7%—dampened by the Federal Sales Tax, applied January 1, 1988 and rate reductions averaging 17%—consolidated net income increased 83% from $24.8 million to $45.4 million.

Two years ago AGT launched an ambitious and aggressive program to convert Alberta's telecommunications infrastructure to digital switching and fibre optic technologies. The program also involves extension of individual line service to all rural areas. As we enter our third year of the five-year program, we are ahead of schedule.

The significant investment in developing this advanced public network provides important economic and social benefits to all Albertans: immediate stimulation of economic activity; full participation by our customers in the evolving information

Hal Neldner, 50,
President & Chief Executive Officer

"We are positioning AGT for continued growth and profitability: becoming more adaptive; concentrating on our core network business; developing the full potential of our people; and striving to achieve complete customer satisfaction."

PREPARING FOR A NEW ERA OF TELECOMMUNICATIONS THROUGH A HIGHLY-ADVANCED NETWORK

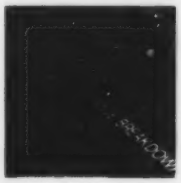
age; and most importantly, a source of competitive advantage for Alberta businesses in the world marketplace.

Industry events reaffirm the trend towards increased competition in the Canadian telecommunications market. The Sherman Report and positioning of the major players in the industry suggest long distance competition could soon be a reality, even though such a move may not be in the best long-term interest of Canadians. Providing low-cost, high-quality services through a modern public network – such as that being developed by members of Telecom Canada – may, in total, be much more economic in meeting customers' requirements than through the proliferation of alternative or parallel private networks.

During the latter part of 1988, the City of Edmonton gave serious consideration to restructuring or possibly selling 'edmonton telephones.' Should city council decide to sell, a merger of the AGT and 'et' operations would strengthen the Alberta telecommunications network. I am confident arrangements of a sale could benefit all stakeholders – the City of Edmonton, Edmontonians, the provincial government and Albertans.

Ownership of AGT, as well, was the subject of comment in 1988. For some time, the provincial government has been examining privatization of appropriate crown agencies, including AGT. I believe the Company is well positioned to operate as a private sector firm, and needs the competitive freedom and flexibility to take advantage of changes in the telecommunications business. This would benefit employees, customers and Albertans through increased opportunities for growth and further development of enhanced services.

In keeping with our goal of achieving full customer satisfaction at all times, we continued to adapt our corporate structure and values. Telecommunications operations were consolidated into



Consolidating the business units has tightened our market focus even further.

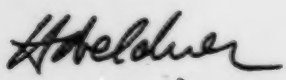
five business units, each dedicated to a specific market: Network Services, Residence Services, Business Systems, Mobile Communications and Directory. With corporate leadership and direction provided by executive management, the units are run by general managers with full decision-making autonomy. To strengthen operating capabilities, various support services such as Finance, Human Resources and Systems Development are being located within the business units.

Senior management changes saw the appointment of R. F. Sutcliffe as Vice-President, Corporate Services; W. D. Montgomery, Vice-President, Human Resources; E. Roesler, Vice-President & General Manager, Network Services; and J. W. Thiessen, Vice-President & General Manager, Residence Services. These organizational changes strengthen our ability to meet customer expectations and operate successfully in a more competitive environment.

The limit to innovation and growth in our business is not technology, but rather our ability to fully unleash the potential of our people. We must therefore continue to encourage and challenge employees at all levels of the organization to be fully involved, gaining their partnership in "building quality through people."

Dedication, initiative and action by all employees made 1988 a year of tremendous achievement, especially AGT's role in the Winter Games. It was our provision of "advanced global telecommunications," the strong alliances with our suppliers and the creative minds of our employees that played a key role in making these Games the best ever. The momentum of that event carried through all activities during the year. We look to the future with a better understanding of the challenges before us, fully aware that customers are the cornerstone—the only judges of our service.

The report that follows details our accomplishments in 1988 and our vision for the years ahead—expressed through the hearts and minds of my executive management team.



H.M. Neldner
President
March 20, 1989

Powerful external forces are reshaping the telecommunications industry—increasing competition, advancing technology and changes in the way the industry is regulated.

Our success in this challenging environment rests on our ability as a corporation to adapt. To that end we are responding aggressively to the opportunities created by these changes. In 1988, many of the activities undertaken by the Corporate Development group involved preparatory work not readily apparent in our day-to-day operations. However, it will shape and influence the outcome of events in the best interests of our customers, our employees and our shareholder.

In anticipation of the ruling by the Supreme Court of Canada regarding jurisdictional authority over telecommunications, we examined the potential implications of this landmark decision. A ruling in favor of federal regulation, either in whole or in part, may mean a new regulator for AGT and a more complex regulatory process, potentially involving some form of dual federal/provincial regulation.

Federal policy initiatives signal the government's desire for increased competition in the telecommunications sector. The Sherman Report, published in December, was the result of a federal/provincial task force examining the impact of long distance competition on telephone rates in Canada. Though no recommendations were made in the report, it is AGT's position that competition must be conclusively determined to be in the best interests of Canadians, prior to introduction of major legislative or regulatory changes.

Jim McDonald, 53,
Executive Vice-President, Corporate Development

Responsibilities: Corporate development, regulatory and intercarrier affairs, corporate communications

"There's little chance of survival today for the strictly reactive corporation. Our strategy is to influence, prepare, and be ready for the new environment—creating a bright future."

ADAPTING TO PROVIDE CUSTOMERS WITH ADVANCED GLOBAL TELECOMMUNI-CATIONS

Items contained in the proposed new Broadcast Act are further indications of the federal government's intent to open the telecommunications industry to more competition. This could affect the telephone companies in the long term by giving cable TV companies a potential monopoly in the delivery of television signals to homes and businesses. The economics of fibre optics will shortly enable this broadband technology to carry all information signals including television, telephone and computer information to the residence and business customer over a single "highway." AGT is developing plans aimed at implementing this exciting technology.

Provincially, legislative changes incorporated in Bill 59, the new Alberta Telecommunications Act, clearly established the mandates of AGT and 'edmonton telephones' and further positioned AGT to meet increasing competition in a more flexible manner. Alternate regulatory mechanisms, such as price cap regulation and streamlined regulatory procedures, were studied in anticipation of further regulatory reform within the telecommunications industry.

A decision on our 1986 General Rate Application to the Alberta Public Utilities Board (PUB) was delivered in December, 1988. This decision confirmed the long distance rate reductions implemented on an interim basis August 1, and the

Powerful forces are reshaping the telecommunications industry.

Increased competition must ultimately be in the best interests of Canadians.

$67 million rebate refunded to customers on September 1. In addition, the PUB approved further relaxation of AGT's network interconnection policy allowing increased competitive services in our private line, private mobile, and resale and sharing businesses. A number of new services aimed at improving community calling options were approved, including bulk purchase plans and shorthaul discount plans.

In 1988 we strengthened our research and development activities. Through our commitment to the Alberta Telecommunications Research Centre, AGT participated in advanced research on fibre optics and network management tools. In cooperation with Athabasca University we are participating in the development of prototype systems to deliver educational programs via the network. In June, we hosted our first business opportunity forum via video conference facilities linking business participants in Calgary and Edmonton. Alberta entrepreneurs were invited to exchange ideas about tomorrow's network and discuss their role in developing related new technologies.

The launch this fall of the "Advanced Global Telecommunications" advertising campaign portrayed AGT as "more than the phone company." We wanted to share with Albertans our excitement about the changes in our business. We're positioning the Corporation and our customers for change. The impact of that campaign and the positive response it generated tell us our customers are excited about the future as well.

Anticipate and adapt. That's the formula we're using to create the future.

The once-distinct lines separating customers, suppliers and competitors are rapidly blurring. We are meeting the challenge of change by preparing for network competition, continuing to modernize network facilities, and increasing our orientation to customers.

Focusing on the network as our core business is the strategy needed to counter growing competitive pressures. Today, 24% of AGT's total revenue comes from competitive activities. Although competition in network services is relatively small – only 9% of total revenues – the long distance market, if open to competition, would inflate that percentage dramatically.

To maintain customer loyalty, we must continue to enhance our service offerings while at the same time bring pricing more in line with actual costs. Mindful of this, AGT has undertaken several initiatives:

- To improve network sales, we created a special sales group within the Business Systems area which concentrates specifically on innovative network applications.
- To help focus on our core network business, we combined Engineering, Operations and Network Marketing into one autonomous unit: Network Services.
- In response to market demand, and as a result of lower costs and increased productivity, AGT lowered long distance charges 17% on average.
- In preparation for a more competitive marketplace, we set aggressive goals for marketing value-added network services such as Custom Calling and Touch Tone.

Don Lowry, 37,
Executive Vice-President, Network & Customer Services

Responsibilities: Business unit operations including Network Services, Residence Services, Business Systems, Mobile Communications and Directory; customer relations

"Our network is one of the major market advantages we have. Everything we're doing now is strengthening that advantage."

PRODUCTS AND SERVICES THAT ANTICIPATE CUSTOMER NEEDS

Our ongoing network modernization program is an integral step in readying ourselves for the future. With two years of progress behind us, completion province-wide is planned for 1991; facilities in Calgary will be upgraded in 1992. A major part of modernization is converting all party lines in Alberta to Individual Line Service (ILS), benefiting our customers with uninterrupted calling, on-line computer use and universal access to the latest telecommunications services.

Nineteen eighty-eight capital expenditures for ILS were $81.4 million as 27,735 customers received individual lines. In support of ILS, AGT's switching system is also being completely upgraded, with 68 installations this past year at a value of $79.3 million.

Addressing another priority—improving AGT's customer responsiveness—we undertook several initiatives. Most successful were our customer advisory panels and a recently-expanded program pairing senior Company executives one-on-one with major customers.

Responding to the need for expanded calling options in non-urban areas, the Company completed 113 Extended Flat Rate Calling routes in 1988. New subscription-based services were also introduced, including "Community Calling," "Between Friends" and a number of other discount programs.

Looking to 1989 and beyond, we see our activities centered in two key areas: local network services and cellular communications.

Traditionally, local services have been heavily subsidized by long distance revenues. In view of declining toll rates and in the face of competition, alternate strategies are needed. Rather than relying solely on increasing local rates, we will contain costs and generate new revenue through existing and enhanced services.

To maintain customer loyalty we must continue to enhance our service offerings.

Among these are Call Management Services such as Calling Number Display and Selective Call Screening, all to be trial-tested in Red Deer in 1989.

Also in 1989, customer trials will be underway in Calgary and Edmonton for the Integrated Services Digital Network (ISDN). ISDN represents a world standard for the integrated transmission of voice, data and images over a single line.

Most exciting for 1989—and destined for strong growth—is cellular communications. AGT's cellular 800 coverage, the most extensive in the province, was expanded in 1988 to include Lethbridge and Medicine Hat. Our goal is to increase market share upwards of 70% by 1995. To this end, we will enlarge our coverage area, while adding new, sophisticated services. We will also develop our associations with retail outlets in the province and take full advantage of our national association with CellNet Canada. In addition, we have committed $24 million to expand our province-wide cellular network, Cellular 400. We will increase cell sites from 162 to 188 over the next three years.

Services for mobile paging are continuously being improved. The paging switch was completely upgraded with the latest in digitally-enhanced features and our coverage area is being extended to ten new locations. In an effort to see our paging coverage extend beyond Alberta, we've formed an alliance with the other western telephone companies, bringing British Columbia, Saskatchewan and Manitoba within AGT's service area.

This next year, and the decade after, present the Company with considerable potential for growth and development. The future also presents us with the challenge of adapting our products, services and business practices to meet the constantly changing, expanding customer demand.

In Network and Customer Services, we are meeting that challenge by making every effort to define and respond to the marketplace. We must be the best to thrive in a competitive market—and we will be the best.

Like many companies, AGT is wrestling with the management of change. As the number and strength of alternative telecommunications suppliers intensifies within our industry and the province, our greatest competitive edge is our people. We can develop or buy new technology, but skilled, competent and committed employees are fundamental to AGT's continued success. Hand in hand with good people is the commitment to excellence in customer service. Together, these two principles form the foundation for all of AGT's Human Resources initiatives.

To anticipate and respond to changing market demands, we must build an adaptive organizational structure and we must prepare our people.

We addressed this challenge in 1988 with a further restructuring of the Company, in keeping with the directional goals established in 1986. AGT's operations were divided into five business units: Network Services, Residence Services, Business Systems, Mobile Communications and Directory. Each business unit deals with a distinct market, has its own general manager and support organization, and is accountable for its own operations. Their autonomy is balanced by corporate direction and overall corporate performance guidelines.

An interactive and participatory approach was taken to facilitate this restructuring. A task force of senior managers and subgroups of employees recommended a decentralized structure to maximize the efficiency and effectiveness of each business

Bill Montgomery, 46,
Vice-President,
Human Resources

Responsibilities: Employee relations, organisation development, total quality support and education, compensation and benefits

"Competent and committed people—they are essential to AGT's continued success."

EMPOWERING PEOPLE WITH SKILLS AND *CHOICES THAT* LEAD TO BETTER CUSTOMER SERVICE

unit. Human Resources is one of the first groups to be integrated within the individual business units.

This year a greater emphasis was placed on the overall "wellness" of AGT employees. A clean air policy was developed and implemented throughout the Company. A fitness centre has been established in Edmonton and plans are underway to assess the viability of similar facilities in other locations throughout the province.

To assist managers in handling discipline more effectively within AGT, a program was developed by a team of employees, and introduced in the seven regions. The program, based on the concepts of coaching, counselling and problem solving, involves manager training with instruction by line supervisors. This approach has been well received by the majority of supervisors and employees. Over 80 workshops were led by teams of Human Resources staff and line people.

In an effort to stress increased flexibility and recognition of individual preferences, a new benefits package including select benefit options, was developed. The package was forwarded to all employees, with follow-up discussion groups reviewing the material in greater detail; an opinion survey was conducted to ensure further customization of benefits in 1989.

Over the year, employee relations with the International Brotherhood of Electrical Workers (IBEW) have been productive. Contracts with the Clerical and Traffic union were completed in July, 1988 without work stoppages. To improve our supervisors' understanding regarding interpretations of the collective agreements and policies and procedures at AGT, an employee relations newsletter, "Rapport," was regularly published for circulation within the Company.

Training and education have always been important at AGT. A major thrust in 1988 was to increase the opportunities for individual growth and development. Full coverage of tuition and related expenses

is available for employees who want to expand their level of knowledge and expertise. A number of courses were offered throughout the year on subjects including public speaking, writing, and stress management. By far the most innovative program was the launch of diploma and university degree courses provided in conjunction with Athabasca University. Held on AGT premises, the courses were oversubscribed with more than 500 enrollments. This program will be expanded in 1989 and employees will soon be able to conveniently register through the internal electronic mail system.

We are moving AGT towards new levels of achievement and excellence.

A pilot training program was successfully introduced during the year to help supervisors improve their management skills. The modular, interactive, behavior-based program was initiated within the Business Systems group; it will be introduced in other business units as well.

We will also introduce a framework for "building quality through people." This process of gaining greater employee participation encompasses principles we are strongly committed to: equipping employees with the necessary education and tools to contribute to the success of the Corporation. It will be a major thrust in 1989 and beyond. We are moving AGT towards new levels of achievement and excellence in everything we do.

We will continue to evolve the organization to bring us closer to customer groups and their specific needs. And as we make the organization more adaptive, we will ensure our people progress as well.

Performance management and employee development initiatives introduced in 1987 and 1988 will also be further refined to meet the demands of a changing organization and the needs of our employees.

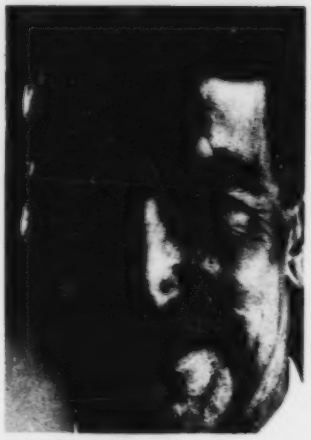
In summary, initiatives undertaken this year are preparing our people to manage and operate more effectively in a rapidly changing business climate. Every employee is a partner in the future of AGT; empowering them to be actively involved in decisions and to work with pride and innovation – that is AGT's competitive edge.

Corporate Services, viewed in one respect, is a straightforward function of supply: meeting AGT's requirements for computer technology, transportation, work space and materials. Yet how we're fulfilling our role is notably changing. We consider employees as our customers when providing essential services, and that means being as customer-focused within the Company as our business units must be out in the marketplace.

A transition is underway to give employees more decision-making choices about the services they want. Our function is to establish the framework to make that happen—setting standards, making technology available and offering support services that deliver value and choice.

In that regard, considerable progress was made in 1988 within Fleet Management and Materials Management. New computer-based information systems were successfully piloted during the year; when fully operational in 1989, they will reduce costs and make distribution of services more effective. This will be especially helpful in managing AGT's fleet, which comprises 3,500 vehicles throughout the operating regions.

These new systems will also provide a means of accurately tracking costs and attributing them back to the user, establishing greater accountability at the primary corporate level: first line management. At that level, decision-making needs to be measurable on a day-by-day basis. Along with choice of service, managers will be directly accountable for dollars spent and



Bob Sutcliffe, 54,
Vice-President, Corporate Services

Responsibilities: Computer services; management of fleet vehicles; real estate holdings; purchase and distribution of corporate materials

"Corporate Services' most important customer is the AGT work force. In everything we do, we strive to adhere to the Company's overriding commitment: customer first."

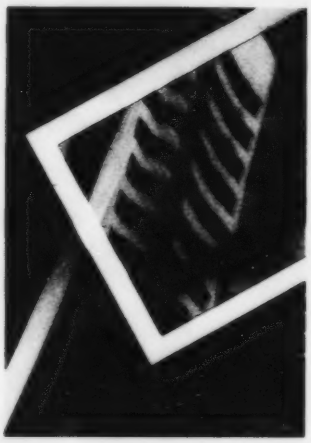
INCREASED PRODUCTIVITY THROUGH ENHANCED SUPPORT SYSTEMS

results produced. They will be encouraged to take complete responsibility for activities affecting the Company's success.

This underscores the critical importance of information as a management tool – gathering and distributing it as a shared resource – within AGT. We are developing a management information system that works across the entire Company, creating an "information warehouse," widely available and capable of being tailored in virtually any manner. With plans nearing completion, rollout of the project will occur over the next two years. Considerable involvement will come from internal customers as well as the finance area.

Another way we deliver value is by increasing employee productivity. Part of this involves creating stimulating, supportive work environments. AGT occupies approximately 800 buildings in Alberta, with total floor space of 700,000 square meters (7.2 million square feet). This past year, major working-area renovation projects were initiated in the Edmonton and Calgary offices, with similar upgrading planned in the other five regions.

A project was also launched to provide new telecommunications systems for the Edmonton and Calgary offices, and to establish a tie line network connecting all seven of AGT's regional offices. In addition to improved voice and data communications, the upgrading gives employees increased access to versatile network services, such as Envoy 100 and



Putting new technology in the hands of employees is a firm commitment at AGT.

iNet 2000, plus exciting new services including electronic voice messaging.

Furthermore, over a thousand employees were added to AGT's electronic office system. With nearly half the Company – some 4,700 people – linked electronically, communication is faster and more effective.

Putting new technology in the hands of employees is a firm commitment at AGT. We introduced desktop publishing this past year, enabling employees to create high-quality documents more cost-effectively. Boosts in productivity are also coming from a network-based method of doing business with suppliers – Electronic Data Interchange or EDI. In using EDI, we not only forge closer ties with our suppliers, we also showcase AGT's network capabilities to business customers.

Computer technology, whether to increase efficiency or manage information, is essential in delivering all corporate services – especially in light of the rapid fusion taking place between data processing equipment and telecommunications. We continually monitor and test new developments. Consequently, the integration of systems – and a general "integrated" approach to Corporate Services – will remain a key objective in 1989.

Other priorities include an overall effort to improve communications: anticipating people's needs so as to continually deliver better service. Much of this will stem from new initiatives in the year ahead to measure the levels of service being provided and determine which areas need to be addressed.

At AGT, every activity is ultimately carried out to better and more efficiently meet customers' needs. Treating our own employees as customers helps accomplish that.

New computer-based information systems will reduce costs and make distribution of services more effective.

Managing financial systems and resources as the Company moves from a monopoly to a market-driven operation involves careful planning and a sense of urgency.

With the complexity of today's telecommunications services and the increasingly competitive nature of our business, systems that served us well in the past are not keeping pace. Improving those systems is a vital part of our overall objective: upgrading the Company's financial management process to reflect an advanced telecommunications corporation with multi-business units.

To achieve this, we are establishing closer ties between corporate planning and budgeting. In addition, expertise within our area is being strengthened to help manage new financial processes. The end result will be a more efficient and responsive organization.

A decentralization of finance employees was initiated in 1988. Part of our team is now focusing on broader issues, ensuring resources are allocated to corporate priorities. Other employees are being placed within the business units to improve management of operations.

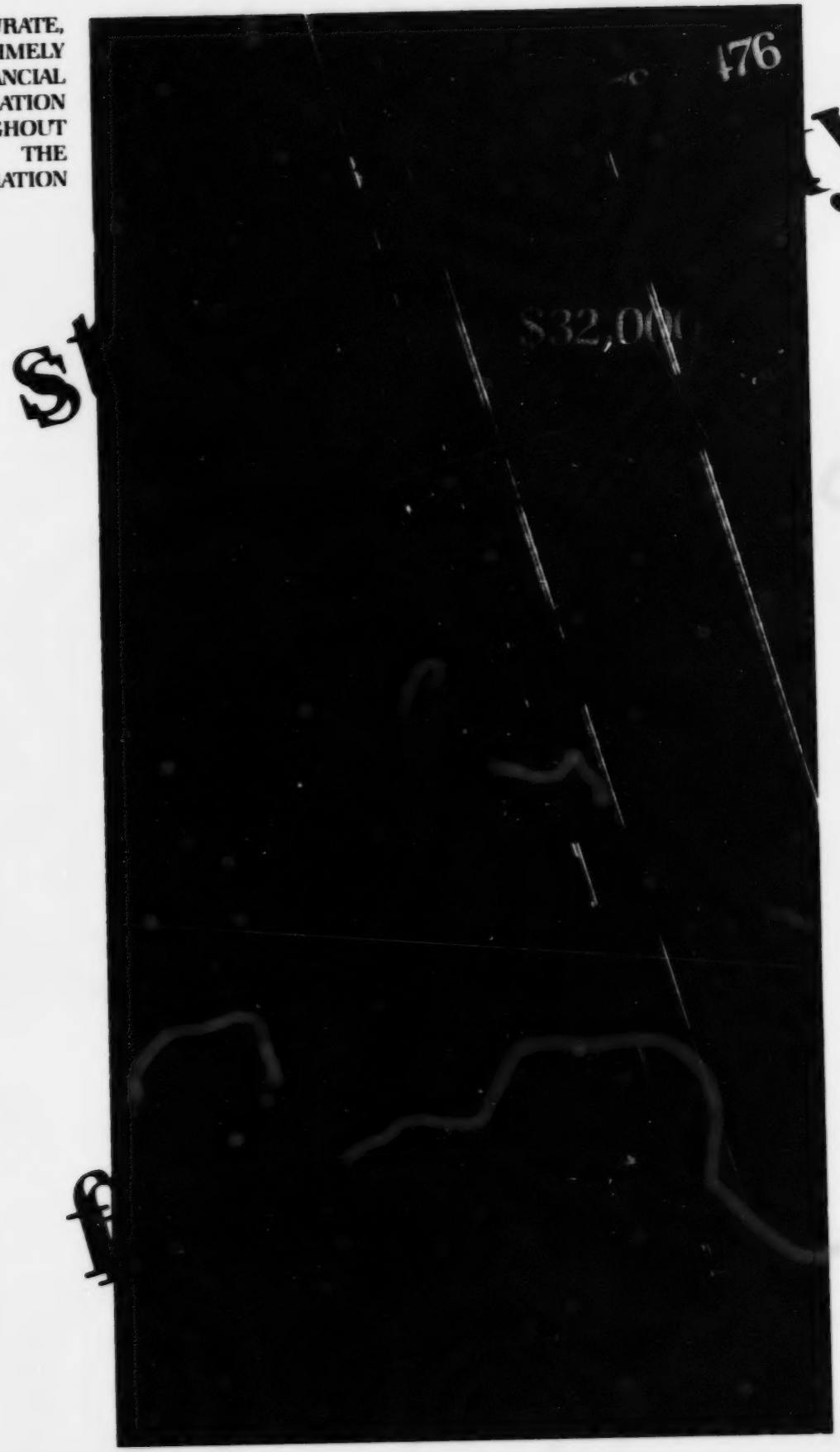
New budget systems were implemented at both the corporate and business unit levels. These are enhancing the accuracy and timeliness of information available to business unit managers, enabling them to react faster and more efficiently to changes in the marketplace. On the corporate side, we are improving long-range financial planning systems, making economic and industry forecasting more relevant.

Frank Parrotta, 40,
Vice-President, Finance

Responsibilities: Financial planning, accounting, and financial systems; security and audit; treasury and pension fund

"Our most critical role is upgrading financial processes to support a multi-business unit structure."

ACCURATE, TIMELY FINANCIAL INFORMATION THROUGHOUT THE CORPORATION



Also in 1988, we made considerable progress upgrading customer records and account information. New systems for customer payments, administration of claims and account collections were implemented throughout the year to provide better information at reduced cost. Improvements were also made to inventory and fixed asset systems.

Our agenda for 1989 and beyond will address the need for better financial information and more widely-dispersed financial functions within the Company.

The management information project initiated jointly in 1988 between Finance and Corporate Computer Services, will continue into 1989 and the next several years. Complemented by other initiatives in Corporate Finance, this project will have the single largest impact on our current financial management process by providing readily-available, quality-assured integrated data for costing and analysis purposes.

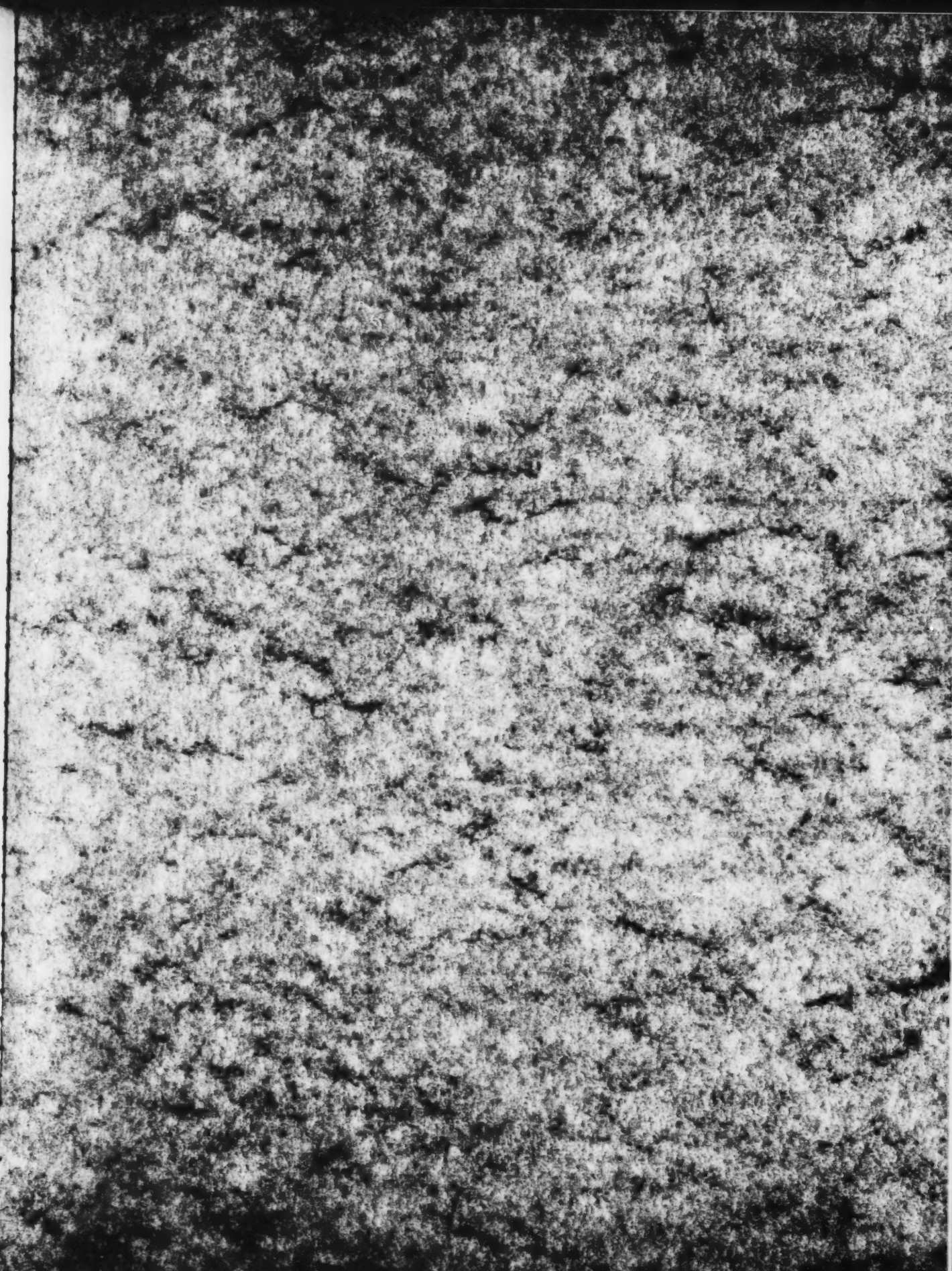
We will increase the expertise of our finance people, and place greater emphasis on training and professional development. Equally important, we will work closely with business unit managers in analyzing the cost and profit potential of products and services. And as finance functions are further decentralized, new standards, policies and methods will be developed in support of the Company's business unit structure.

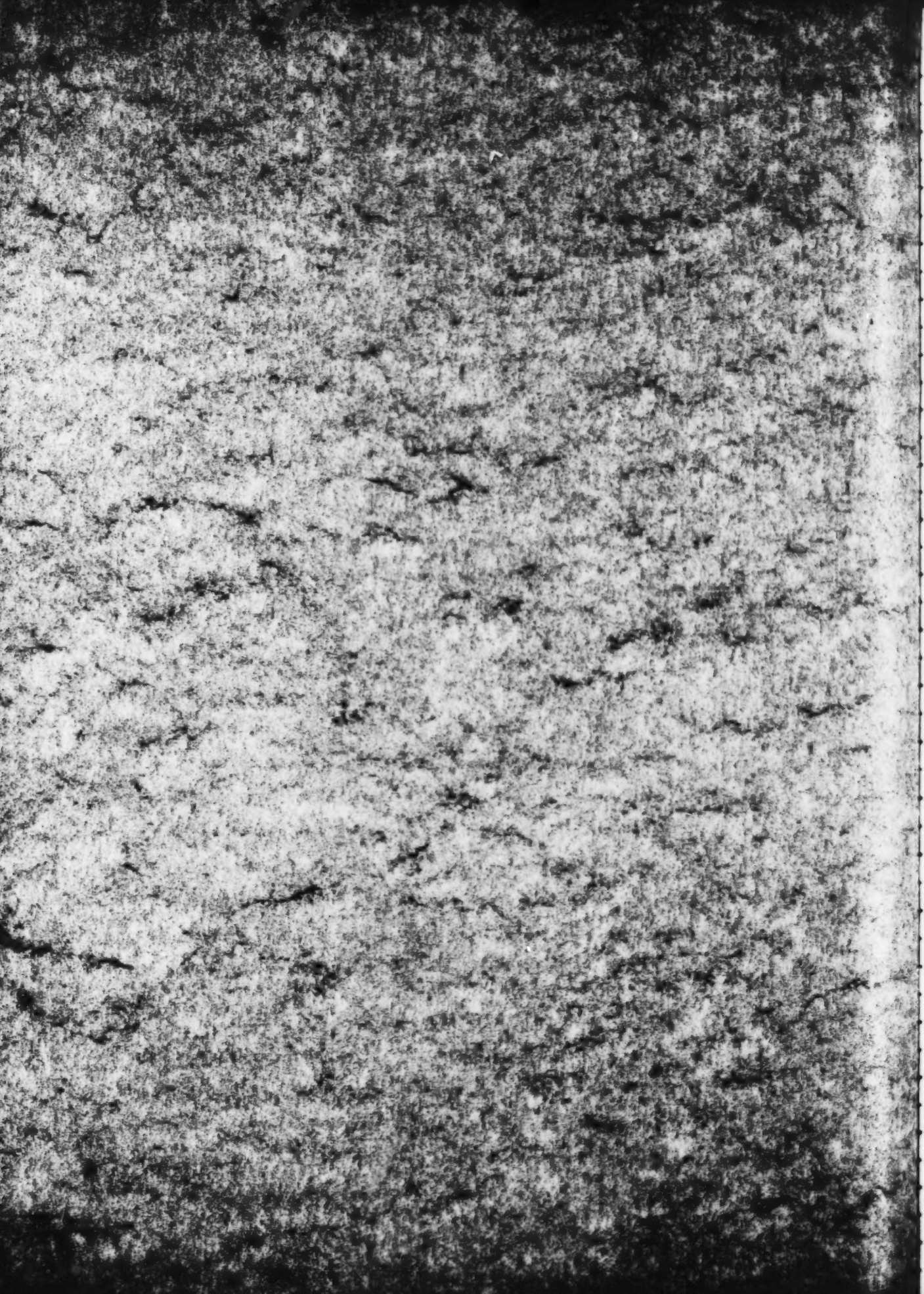
A new billing system is being developed with input from our major customer groups. On completion, the system will provide bills customized according to the preferences of each AGT customer. This alone represents one of the largest information system projects ever undertaken by AGT, eventually requiring the training of 2,900 employees.

A new customized billing system is under development.

Finally, the goal of applying quality standards to every aspect of operations will be introduced in Finance during 1989. By continually reviewing and upgrading AGT's financial systems and processes, high standards of accuracy and timeliness in our data will be achieved.

In summary, 1988 was a year of good progress. The value of our financial information, the effectiveness of our new structure and the skill levels we have to offer the Company are increasingly more consistent with those in the private sector.





AGT believes the formula for financial success is giving maximum value to customers by providing universal service at affordable rates, based on a modern and efficient network.

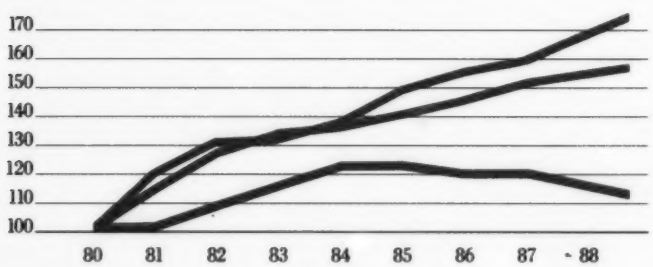
AGT has always maintained a high quality of service while keeping price increases at a significantly lower rate than inflation (see graph). As a result of prudent management, the Company refunded $69 million of its 1986 and 1987 earnings to customers ($67 million of which was refunded in 1988), and reduced long distance rates by a composite average of about 17% (effective on an interim basis August 1, 1988). Based on 1988 financial results, AGT anticipates another revenue refund of approximately $51.8 million will result from the upcoming 1988 General Rate Application with the Alberta Public Utilities Board.

AGT continues its tradition of maximizing value to customers. The Company is pursuing a strategy of sustained investment in quality plant, people and management in order to fully meet customer expectations in the most cost-effective manner. Financial results demonstrate the effectiveness of such a strategy.

Revenue

AGT's commitment to customer service and network investment positioned it well to take advantage of the economy's strength in 1988.

To better serve customers, AGT reorganized its operations and customer service functions by market segments, and continues to effectively manage its service portfolio in response to customer needs. In 1988, a number of new network services were introduced, including air-to-ground public telephone service and Page Call Plus. A new and flexible billing system is also being developed to better meet



CPI, personal income per capita and AGT rate index 1980-1988

■ Consumer Price Index ■ AGT rate index ■ Personal income per capita

Source: The WEFA Group

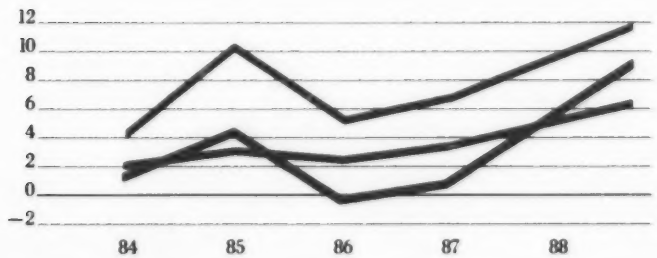
changing and increasing customer requirements for billing information.

The Alberta economy showed some strength in 1988 with GDP increasing by 5.7%. AGT's network access lines grew by 5.2% while long distance messages increased 9.5% over 1987.

The volume of long distance messages was affected by a number of factors: normal growth plus the stimulation effect of rate reductions, offset by the negative impact of the Federal Telecommunication Services Sales Tax, effective January 1, 1988. Reported long distance service revenues increased 4.7% over 1987. This is a result of increases in long distance message revenues of 3.5%, WATS revenues of 15%, Intelligent Network Services (Datapac and Datalink) revenues of 16% and 15% in other toll revenues (private data and Teleroute). The increase of 3.5% in long distance message revenues is much lower than the 9.5% increase in long distance messages, due to rate reductions effective August 1, 1988.

Local service revenues increased marginally over 1987. Increases of 9% in telephone service connections and moves, 14% in general mobile revenues and 21% in other local revenues (local private line) were dampened by the decrease in terminal equipment sales and lease revenues due to a saturated market.

Because of long distance rate reductions and provision for the revenue refund of $51.8 million, reported operating revenues showed only a small increase of 2.7% despite the higher volume growth.



Toll messages, network access lines and Alberta GDP (% change)

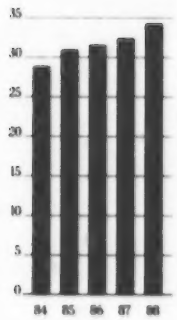
■ Toll messages ■ Network access lines ■ GDP

Source: The WEFA Group

Capital Expenditures

AGT has a strategy of investing in an efficient and modern network since our customers value this investment.

AGT is committed to investing in new technologies that constantly improve the network. This commitment is reflected in the level of telecommunications investment within the province. Alberta's per capita investment in telecommunications facilities is some 34.4%* higher than the national average. Clearly, Albertans value this investment since usage, as measured by revenue per capita, is 30%* higher than the national average, while rates for equivalent services are generally comparable or lower. This higher usage provides for improved productivity as shown by the increasing levels of revenue per dollar of investment (see graph).



Revenue per gross plant investment (%)

The current year's capital expenditures amount to $419 million, a 44.9% increase over 1987, indicative of AGT's commitment to building and maintaining a high-quality network that provides improved services to all customers. Included in this amount is approximately $140 million relating to the network modernization program, which comprises the conversion of multi-party lines to individual lines, installation of digital local switches and upgrading of network management capabilities. For the period 1989 – 1992, AGT expects to spend an additional $478 million on modernization, out of total estimated capital expenditures of $1,393 million. Completion of this program in 1992 will see all Albertans with individual line service and all local switches upgraded to digital – positioning AGT customers to benefit from new technology and services.

*Statistics Canada – Telephone Statistics 1986 (includes 'edmonton telephones').

Operating Expenses

AGT continues reinvesting productivity gains into people and management processes, which will give the Company competitive advantage in the future.

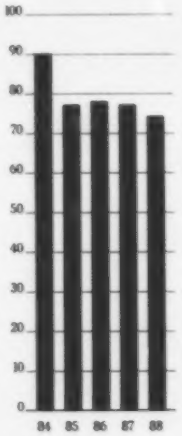
To better position AGT in competitive markets where service, productivity and efficiency are key, the Company continues to invest in people and management procesess, with the objective of achieving quality through people.

In aggregate, operating expenses increased only 2.5% from 1987. This is in line with AGT's corporate objectives of prudent management and productivity gains.

Depreciation expense, which accounts for approximately 25% of operating expenses, is up 2% over 1987, due to the increased capital expenditure program. Maintenance expense, which accounts for 24% of total operating expenses, increased 3.1% over 1987. This is a result of work being done in conjunction with network modernization.

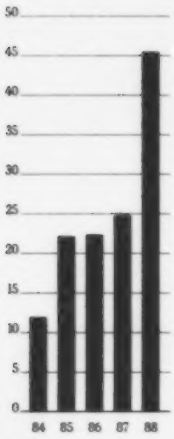
Traffic expenses are up 8.1% primarily due to a 7% increase in the volume of operator-assisted calls. Commercial and marketing expenses increased 8.6% over 1987. The higher cost of printing and distributing a larger volume of directories accounts for 28% of this increase. The balance stems from continued emphasis on customer services, with the focus on customer applications and requirements; advertising, including campaigns designed to enhance AGT's image in addition to product and portfolio advertising concentrating on the synergistic properties of AGT's network and terminal products; and business development, comprising market trials of new products, market research, as well as product and market planning functions.

General and Administration expenses were up .5% over 1987 and pension fund expenses were down 12.3%. Excluding the one-time charge reported in 1987 for the third employee retirement program,



Expense per revenue $ (%)

general and administration increased by 8.7% and pension fund expenses decreased 3.5%. This decrease in pension fund expense is chiefly due to a 22% increase in capitalized pension fund expenses.



Net income (in millions)

The increase in administration expenses reflects investment in people and management processes. Investment in people is shown by higher levels of expenses for training programs, improved benefits and office renovations, to name a few major programs. Investment in management processes resulted from increased expenses for upgrades to the financial management, fleet management and materials management systems. This investment is also evidenced in continued emphasis on the strategic planning process, including regulatory, corporate planning and research functions; human resource processes, with emphasis on planning, organizational development and employee relations; and financial planning and analysis functions—all resulting in increased expenditures in these areas.

Earnings and Financing

Financial results demonstrate the effectiveness of AGT's strategy to fully meet customer expectations in the most cost-effective manner.

The financial strength of AGT is demonstrated in the refund given to customers in 1988. In August, a composite average toll rate reduction of 17% took place, and in September $67 million was refunded to customers via reductions on their monthly bills. Despite this significant reduction in cashflow, the net debt position is better than it was at the end of 1987.

Debt as a percentage of total assets is slowly decreasing, down to 89.3% in 1988 from 92.3% in 1987. As assets grow, the debt of AGT is not growing proportionally, demonstrating an increasing ability to finance capital expenditures through internally-generated funds.

Interest and other expenses decreased in 1988 by 10.3% from 1987. This is due to a 15% increase in sinking fund earnings and a 40% increase in the Allowance for Funds Used During Construction. It also includes the continuation effect of retiring $375 million of high-interest debt in 1987, with 15.6% coupon rates. There was a new debenture issue of $200 million in 1988 at 9.6%, slightly higher than debt cost of 9.25% in 1987. Interest coverage increased to 1.21 in 1988 from 1.10 in 1987, reflecting a lower composite cost of debt and an improved debt-equity ratio.

Return on average capital increased to 11.7% from 11.5% in 1987. Net income increased 83% over 1987, reflecting higher productivity and revenue growth.

Future Prospects

Corporate performance will continue to improve as a result of AGT's commitment to total quality.

Nineteen eighty-nine will see the full-year impact of AGT's toll rate reductions. Despite this, and lower growth expected for the Alberta economy, the Company remains confident of its prospects in 1989 and beyond. Growth is anticipated to result from increased toll message volumes stimulated by reduced toll rates; wider availability of enhanced services through network modernization; and continued expansion of cellular mobile service and directory revenue. With sustained investment in people, management and network, AGT will continue to make productivity gains. By committing to the quality concept internally and giving maximum value to customers, the Company will create a competitive advantage that ensures financial success in the future.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and information in the Annual Report are the responsibility of management and have been approved by the AGT Commission. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and of necessity include some amounts that are based on estimates and judgements. Financial information presented throughout the Annual Report is consistent with that in the consolidated financial statements.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains a system of internal accounting controls comprising written policies, standards and procedures, a formal authorization structure, and an internal audit program. This system is designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded. The Company has also established a Code of Business Ethics and corporate directives which require communication of the Code to employees.

The Commission carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of members of the AGT Commission. This Committee meets periodically with management and the auditors to discuss and review audit and financial matters, and recommends the financial statements to the Commission for approval. The Company's external auditor has full and free access to the Audit Committee.

The Auditor General of Alberta, the Company's external auditor, appointed through The Auditor General Act, provides an independent audit of the consolidated financial statements. The Auditor's Report follows.

On behalf of the Management,

H.M. Neldner
President and Chief
Executive Officer

F.J. Parrotta
Vice-President,
Finance

Edmonton, Alberta
January 27, 1989

Auditor's Report

To the members of
the Alberta Government Telephones Commission

I have examined the consolidated balance sheet of The Alberta Government Telephones Commission as at December 31, 1988 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Donald D. Salmon
C.A.
Auditor General

Edmonton, Alberta
January 27, 1989

▸ ▸ ▸ *Consolidated Statement of Income*

for the year ended December 31, 1988 *(thousands of dollars)*	1988	1987
Operating Revenues:		
Long distance service	$ 745,200	$ 711,424
Local service	323,576	323,205
Directory, rental and other service	65,400	61,733
Revenue refund (Note 3)	(51,800)	(41,482)
Uncollectible operating revenues	(11,008)	(11,545)
	1,071,368	1,043,335
Operating Expenses:		
Depreciation	206,534	202,960
Maintenance	201,303	195,188
Traffic	35,861	33,166
Commercial and marketing	94,853	87,341
General and administration	232,599	231,447
Property and business taxes	32,796	30,934
Pension fund (Note 4)	22,350	25,476
	826,296	806,512
Income from Operations	245,072	236,823
Interest and Other (Note 5)	190,173	211,980
Income Before Extraordinary Items	54,899	24,843
Extraordinary Items (Note 6)	(9,493)	—
Net Income	$ 45,406	$ 24,843

Consolidated Statement of Retained Earnings

for the year ended December 31, 1988 *(thousands of dollars)*	1988	1987
Retained Earnings, Beginning of Year:		
As reported previously	$179,864	$126,695
Prior period adjustment (Note 7)	(46,716)	(18,390)
As restated	133,148	108,305
Net Income	45,406	24,843
Retained Earnings, End of Year	$178,554	$133,148

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1988 *(thousands of dollars)*	1988	1987
Operating Activities:		
Income before extraordinary items	$ 54,899	$ 24,843
Items not requiring an outlay of cash:		
Depreciation	216,142	211,331
Other	(9,882)	(1,420)
Sinking fund earnings	(59,255)	(51,499)
Net change in non-cash working capital components	34,771	(4,227)
Other non-current items	44,496	23,056
Cash Provided by Operating Activities	281,171	202,084
Financing Activities:		
Proceeds from long-term debt issues	200,000	400,058
Repayment of long-term debt	(27,171)	(402,511)
Increase (decrease) in notes payable	(31,379)	49,628
Cash Provided by Financing Activities	141,450	47,175
Investing Activities:		
Capital expenditures	(418,975)	(289,146)
Items not requiring an outlay of cash	38,782	35,515
Increase in materials and supplies	(5,872)	(13,158)
Decrease in leases and other	5,628	4,097
Increase in affiliated companies and other	(27,144)	(14,360)
Cash Used by Investing Activities	(407,581)	(277,052)
Cash and Cash Equivalents:		
Increase (decrease) during the year	15,040	(27,793)
Balance, beginning of year	(11,766)	16,027
Balance, End of Year	$ 3,274	$ (11,766)

The accompanying notes are part of these consolidated financial statements.

as at December 31, 1988 *(thousands of dollars)*	1988	1987
ASSETS		
Current:		
Cash and short-term deposits	$ 3,274	$ —
Accounts receivable	187,546	203,141
Inventories for resale	18,163	25,135
Prepaid expenses	19,179	17,540
	228,162	245,816
Investments and Other:		
Affiliated companies and other (Note 8)	69,160	50,758
Leases and other, net (Note 9)	30,730	36,358
	99,890	87,116
Telephone Property:		
Buildings and equipment	3,317,305	3,145,558
Less: Accumulated depreciation	1,422,056	1,360,156
	1,895,249	1,785,402
Land	51,840	49,689
Plant under construction	165,912	103,910
Materials and supplies	76,168	70,296
	2,189,169	2,009,297
Deferred Charges:		
Unrealized exchange loss, net	—	13,996
Other	13,340	17,173
	13,340	31,169
	$2,530,561	$2,373,398

On Behalf of the Commission:

H.B. Hobbs, Chairman

W.A. Graham, Commission Member

The accompanying notes are part of these consolidated financial statements.

(thousands of dollars)	1988	1987
LIABILITIES AND RETAINED EARNINGS		
Current:		
Bank overdraft	$ –	$ 11,766
Notes payable	173,284	204,663
Accounts payable and accrued liabilities	266,956	252,575
Service billed in advance	34,929	35,467
Current portion of long-term debt (Note 10)	130,589	2,274
Less: Sinking fund assets (Note 11)	23,475	–
	582,283	506,745
Deferred Credits:		
Deferred revenue	91,927	48,578
Unrealized exchange gain, net	1,378	–
	93,305	48,578
Long-term:		
Long-term debt (Note 10)	2,275,713	2,227,804
Less: Sinking fund assets (Note 11)	599,294	542,877
	1,676,419	1,684,927
Commitments and Contingent Liabilities (Notes 3 and 13)		
Retained Earnings	178,554	133,148
	$2,530,561	$2,373,398

December 31, 1988

NOTE 1

Authority and Regulation

The Alberta Government Telephones Commission operates under the authority of the Telecommunications Act, Chapter T-3.5, Statutes of Alberta 1988, which replaced the Alberta Government Telephones Act effective July 22, 1988. The Commission is regulated by the Alberta Public Utilities Board under the provisions of the Alberta Public Utilities Board Act, Chapter P-37, Revised Statutes of Alberta 1980.

NOTE 2

Summary of Significant Accounting Policies

(a) Consolidation

These consolidated financial statements include the accounts of wholly-owned subsidiaries, Alta Telecom International Ltd., Alta Telecom Inc., Alta Telecom Licensing Corporation, Alta-Can Telecom Inc., and 288922 Alberta Ltd. All significant transactions between these companies included in the consolidation have been eliminated.

The investment in the 50% owned affiliated company, NovAtel Communications Ltd., is accounted for by the equity method. Telecommunications equipment and supplies purchased by the Alberta Government Telephones Commission from NovAtel Communications Ltd. are reflected in the consolidated balance sheet at cost to the Commission and are included in the consolidated income statement. To the extent that any income related to these revenues has not been offset by depreciation or other operating expenses, it remains in consolidated income and retained earnings. This practice is generally followed in regulated industries.

(b) Telephone Property

Telephone property is recorded at original cost and includes materials, direct labour, certain general overhead costs associated with construction activity and an allowance for funds utilized during construction. Materials and supplies are valued substantially at average cost.

The Commission continually reviews the application of this capitalization policy in accordance with accounting standardization policies of the Telecom Canada companies.

Resulting from this review, no significant changes in capitalization were made in 1988.

(c) Depreciation

Depreciation is provided on a straight-line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups.

When depreciable telephone property is retired for reasons of exhausted service capacity, obsolescence, loss or destruction, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation. Gains or losses on disposal of depreciable telephone property are allocated to operations over the remaining estimated useful lives of appropriate property groups.

When depreciable telephone property subject to resale in the ordinary course of business (such as customer-premise equipment) is sold, the original cost of

such property less accumulated depreciation is netted against sale proceeds and the difference is reflected in local service revenues.

The composite depreciation rate for the year ended December 31, 1988 was 6.72% compared to 6.89% for the previous year. Total depreciation of $218,284,000 (1987 $213,012,000) includes $9,608,000 (1987 $8,371,000) distributed to other operating expenses and $2,142,000 (1987 $1,681,000) distributed to telephone property.

(d) Inventories for Resale

Inventories for resale are valued at the lower of cost or net realizable value. Cost is determined by an average cost method. Systems under design or installation in accordance with customer contracts include material and related engineering design and installation costs incurred and remain in inventory until placed into service.

(e) Investment in Leases

Unearned finance income related to sales-type leases is taken into income over the lease term to produce a constant rate of return on the investment in the lease.

(f) Amortization

Deferred charges, discounts or premiums on long-term monetary assets and liabilities are amortized on a straight-line basis over the remaining lives of the related assets and liabilities.

Where interest coupons and residuals are held as separate investments in sinking funds, discounts are amortized over the period to maturity or call date so as to produce a constant rate of return on the investments.

(g) Deferred Revenue

Deferred revenue relates to the capital cost of equipment rented under operating leases and to contributions from the Government of the Province of Alberta under the Individual Line Service program. It is recognized as income on a straight-line basis over the estimated useful life of the related equipment. Deferred revenue to be recognized as income within one year is included with service billed in advance.

Contributions credited to deferred revenue in 1988 amounted to $45,392,000 (1987 $27,056,000). The amount to be recognized as income in 1989 will be $5,442,000 (1988 $3,102,000).

(h) Translation of Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, all monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at the rate of exchange in effect at the date of the transaction.

Unrealized net exchange gains or losses are deferred and amortized over the remaining lives of the related assets and liabilities.

Self-sustaining foreign operations are translated using the current rate method. Under this method, all assets and liabilities are translated into Canadian dollars at year-end exchange rates; revenue and expenses are translated at exchange rates in effect during the year. Net translation gains or losses arising from changes in exchange rates are treated as deferred charges.

NOTE 3

Revenue Refund

In decisions in February and December 1988, the Alberta Public Utilities Board (PUB) determined that the Commission had revenue surpluses of $27,541,000 for 1986 and $41,482,000 for 1987. The Commission has recorded these revenue surpluses as reductions to revenue for 1986 and 1987, respectively. Lower rates were implemented on an interim basis effective August 1, 1988, with final rates approved for implementation February 1, 1989.

As part of a General Rate Application, for which evidence is to be filed by June 1, 1989, the revenue surplus for 1988 will be determined. Management has estimated the revenue surplus to be $51,800,000. This liability has been accrued in accounts payable, and reflected as a reduction of 1988 Operating Revenues.

The refund of these revenue surpluses for 1986, 1987, and 1988 will have an impact on the Commission's share of Telecom Canada revenues, the amount of which is to be negotiated. The impact, for regulatory purposes, will be reviewed by the PUB as part of the 1988 General Rate Application. The amount of these contingent liabilities cannot be determined at this time. In management's opinion, the determination of these amounts will not have a material impact on the Commission's financial position.

If liabilities related to the above contingencies are determined, they will be treated as prior period adjustments.

NOTE 4

Pension Fund

The Commission maintains a contributory defined benefit final pay pension plan that covers substantially all employees. It provides pensions based on length of service and final average earnings.

Actuarial reports prepared during 1988 estimate the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market-related value, as of December 31, 1988. The estimates, which were based on projections of employees' compensation levels and reflect management's best estimate of the effect of future events are as follows:

(thousands of dollars)	1988	1987
Accrued pension benefits	**$769,187**	$699,293
Pension fund assets	**874,230**	773,699

With the Commission's contribution rate fixed in the Pension Plan regulations, no impact of the net pension asset has been reflected in the current pension expense of $22,350,000 (1987 $25,476,000).

NOTE 5

Interest and Other

(thousands of dollars)	1988	1987
Interest on long-term debt	$245,969	$249,162
Less: Sinking fund income	59,255	51,499
Allowance for funds used during construction	12,319	8,818
	174,395	188,845
Loss in affiliated companies	2,885	10,210
Other, net	12,893	12,925
	$190,173	$211,980

NOTE 6

Extraordinary Items

In an event subsequent to the balance sheet date, the Commission signed an agreement to purchase 100 common and 3,117,100 preferred shares of NovAtel Communications Ltd., and certain related assets for $42,500,000. This will increase the Commission's investment from 50% to 100% of the issued and outstanding shares.

In conjunction with the purchase, the existing investment in shares and related assets as of December 31, 1988 was written down by $9,493,000.

NOTE 7

Restatement of Prior Period Financial Statements

On February 28, 1987, an Arbitration Committee, which held hearings to develop a practical formula for the sharing of toll revenues generated in the City of Edmonton, released its decision which was effective January 1, 1985. Related revenue settlement adjustments with Telecom Canada members were finalized in 1988. Resulting from these settlement adjustments, the opening retained earnings for 1987 has been increased by $9,151,000 for the portion applicable to 1985 and 1986, while long distance service revenue for 1987 has been increased by $13,156,000.

In addition, the opening retained earnings for 1987 has been decreased by $27,541,000 and net income for 1987 has been decreased by $41,482,000 for the revenue refunds described in Note 3.

NOTE 8

Affiliated Companies and Other

(thousands of dollars)	1988	1987
NovAtel Communications Ltd., at equity (50% ownership held by a subsidiary of 288922 Alberta Ltd.)	$60,617	$43,002
Venture Capital investments, at cost (held by Alta-Can Telecom Inc.)	4,473	3,683
Other investments, at cost	4,070	4,073
	$69,160	$50,758

NOTE 9

Leases and Other, Net

The net investment in leases and other results from the sale of assets to customers under a lease purchase plan and from the sale of rental homes and computers to employees. Principal due within one year has been reclassified under current assets.

(thousands of dollars)	1988	1987
Total minimum lease and other payments receivable	$58,042	$66,441
Unearned finance income	(8,520)	(11,788)
	49,522	54,653
Less: Current portion	18,792	18,295
	$30,730	$36,358

NOTE 10

Long-term Debt

(thousands of dollars)	1988	1987
Debentures payable in United States funds, maturing 1989 to 1996, bearing interest at 4.75% to 9.50%	$ 201,000	$ 202,367
Exchange premium, net, at dates of issue	13,327	13,360
Unrealized exchange loss	25,365	47,249
	239,692	262,976
Debentures payable in Canadian funds, maturing 1989 to 2003, bearing interest at 6.00% to 17.75%	2,155,396	1,955,396
Mortgages payable in Canadian funds, repayable in monthly instalments, maturing 1995 and 1999, bearing interest at 8.25% and 11.50%	11,214	11,706
	2,406,302	2,230,078
Less: Portion due within one year included in current liabilities	130,589	2,274
	$2,275,713	$2,227,804

(a) Debentures are unconditionally guaranteed as to principal and interest by the Government of the Province of Alberta.

(b) In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1.00% to 2.00% of the principal amounts outstanding. Contributions are required during periods varying from 15 to 25 years before maturity.

(c) Certain debentures have early redemption provisions at the Commission's option during periods prior to maturity varying from 2 to 4 years for Canadian dollar issues and 10 to 13 years for United States dollar issues.

(d) Anticipated requirements to meet long-term debt repayments and sinking fund provisions during the next five years are as follows:

(thousands of dollars)	
1989	$154,779
1990	58,995
1991	210,453
1992	87,780
1993	56,161

NOTE 11

Sinking Fund Assets

Sinking fund assets relate to the Commission's debenture debt and consist of the following:

(thousands of dollars)	1988	1987
Investments:		
Debentures, at amortized cost:		
Government of Canada, direct and guaranteed	$393,797	$342,353
Provincial, direct and guaranteed	109,990	65,235
Investment in the Commission's own debentures, at amortized cost	76,887	74,921
Unrealized exchange gain	9,576	10,843
Approximate market value: (1988 $630,464; 1987 $530,147)	590,250	493,352
Cash	194	43
Short-term deposits	26,476	43,695
Accrued interest	5,849	5,787
	622,769	542,877
Less: Amount allocated to current portion of long-term debt	23,475	—
	$599,294	$542,877

NOTE 12

Related Party Transactions

During 1988, the Commission purchased equipment, materials and related supplies from NovAtel Communications Ltd. in the amount of $13,559,000 (1987 $9,458,000) which represented approximately 9% (1987 5%) of the sales of NovAtel.

There were no material transactions with other related companies.

NOTE 13

Commitments and Contingent Liabilities

Pending completion of alternate financing arrangements, the Commission has agreed to provide loans of up to $110,500,000 (U.S.) to an affiliated company. The Commission has also agreed to provide a loan guarantee or indemnification of up to $10,000,000 (U.S.). These loans and loan guarantees or indemnities will be used to finance the sale of cellular telephone systems in the United States of America. They will be secured by first charges on the equipment and all other assets of the cellular system licence holder.

In addition, the Commission has agreed to provide indemnification to a Canadian bank of up to $14,175,000 (U.S.), if funds are paid out under an irrevocable letter of credit. The indemnity agreement expires in September 1996, and supports a subsidiary's activity under a contract to construct a fibre optics transmission system in the United States of America. Future losses could be incurred to the extent of any draws on the indemnification, less the value of an interest in the project which the subsidiary has the option to acquire.

NOTE 14

Comparative Figures

The 1987 figures have been reclassified where necessary to conform to 1988 presentation.

	1988	1987	1986
Income Statement *(in thousands)*			
Long Distance Revenues	$ 745,200	$ 711,424	$ 673,558
Local Revenues	323,576	323,205	318,141
Other Revenues (net of Uncollectibles)	54,392	50,188	46,639
Total Operating Revenues	1,071,368	1,043,335	1,010,797
Total Operating Expenses	826,296	806,512	755,987
Interest and Other	190,173	211,980	210,492
Net Income	45,406	24,843	22,362
Balance Sheet *(in thousands)*			
Total Plant Investment	$3,535,057	$3,299,157	$3,146,493
Accumulated Depreciation	1,422,056	1,360,156	1,258,304
Long-term Debt	2,275,713	2,227,804	1,846,389
Total Assets	2,530,561	2,373,398	2,297,530
Financial Statistics			
Return on Average Capital	11.7	11.5	12.3
Times Interest Earned	1.21	1.10	1.14
% Debt to Total Capital	89.3	92.3	94.0
Capital Expenditures	$ 418,975	$ 289,146	$ 226,165
Other Statistics			
Network Access Lines	1,021,129	970,549	938,230
Long Distance Messages (in thousands)	289,791	264,645	248,249
Total Employees	11,592	11,119	11,407
Total Payroll (in thousands)	$ 406,101	$ 397,159	$ 385,944

The 1985 to 1987 Historical Summary statistics have been restated to reflect the restatement of prior period financial results.

1985	1984	1983	1982	1981	1980	1979
$ 647,577	$ 616,456	$ 571,905	$ 531,545	$ 488,746	$ 428,443	$ 354,046
332,884	317,637	263,807	254,982	223,759	190,507	160,400
44,777	37,080	57,792	39,051	21,957	17,878	14,572
1,025,238	971,173	893,504	825,578	734,462	636,828	529,018
728,219	720,040	695,642	690,577	596,546	498,153	407,616
251,889	228,231	228,067	191,245	136,860	113,927	97,020
22,132	11,903	(22,160)	(56,244)	1,056	24,748	24,382
$3,015,739	$3,139,373	$3,054,239	$2,976,148	$2,657,077	$2,244,861	$1,932,576
1,106,137	1,126,483	1,004,047	884,195	786,917	638,309	516,193
2,077,238	2,188,566	2,136,836	2,108,913	1,763,442	1,533,175	1,318,193
2,337,961	2,325,297	2,312,029	2,311,746	2,069,936	1,786,372	1,558,822
12.7	12.9	10.0	7.7	8.5	9.3	9.1
1.08	1.08	.89	.76	1.01	1.18	1.22
94.5	97.1	97.0	96.2	93.4	92.6	93.3
$ 180,688	$ 215,922	$ 222,809	$ 473,516	$ 480,014	$ 380,957	$ 314,313
915,149	887,284	869,053	861,164	839,369	783,367	721,911
236,207	214,357	205,808	205,420	198,930	177,788	148,957
11,477	11,799	11,926	12,814	13,429	12,326	11,229
$ 372,435	$ 357,032	$ 359,675	$ 351,061	$ 307,995	$ 258,790	$ 214,825

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